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IN THE

Supreme Court of the United States

OCTOBER TERM, 1958

NO. 762

EDWARD R. WILLIAMS and JULIA LEE COX WILLIAMS for Themselves and Doing Business as "WILLIAMS ENGINEERING COMPANY", a Partnership, Petitioners,

v.

THE BABCOCK & WILCOX COMPANY and REPUBLIC STEEL CORPORATION

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

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PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

Edward R. Williams and Julia Lee Cox Williams, his wife, Petitioners, respectively pray that a Writ of Certiorari issue to review a final judgment of the Court of Appeals for the Third Circuit entered on January 7, 1959.

OPINIONS BELOW

The Opinion of the Court of Appeals for the Third Circuit is reported in 120 U.S.P.Q. 136; it is not yet reported in the Federal Reporter, but is reproduced in the Appendix hereto, infra.

The Opinion of the District Court is reported in 120 U.S.P.Q. 160; it is not yet reported in the Federal Supplement but is reproduced at (R. 483a).

JURISDICTION

The Order of the Court of Appeals was entered on January 7, 1959. Plaintiffs' Petition for Rehearing was denied on February 5, 1959. Jurisdiction of this Court is invoked under 28 U.S.C. § 1254 (1).

QUESTIONS PRESENTED

Have Petitioners' Constitutional rights to due process of law been violated where the Court of Appeals affirmed the District Court's decision in favor of Respondents on the ground that there was evidence in the record which supported the District Judge's Findings, where the District Judge—

(1) directed the parties to proceed to trial on one issue, although the pleadings raised four distinct bases for relief, each of which would support a recovery for Plaintiffs;

(2) refused to rule on Plaintiffs' request for pre-trial discovery for the stated reason that the discovery was unnecessary to the single issue being tried;

(3) confined the Plaintiffs' case throughout the trial to the one issue;

(4) permitted the Defendants to introduce evidence which had been denied to Plaintiffs in pre-trial discovery and which went beyond the single issue being tried; and

(5) directed that judgment be entered in favor of Defendants, thus disposing of all issues raised.

Has the Court of Appeals applied Rule 52(a) contrary to the federal law as set forth in the decisions of this Court?

CONSTITUTIONAL PROVISION INVOLVED

Amendment V to the Constitution of the United States:

"No person shall be . . . deprived of life, liberty or property without due process of law : . ."

FEDERAL RULES OF CIVIL PROCEDURE INVOLVED

Rule 26 (b) of Federal Rules of Civil Procedure:

". . . the deponent may be examined regarding any matter, not privileged, which is relevant to the subject matter involved in the pending action . . ."

Rule 42 (b) of Federal Rules of Civil Procedure:

"The Court in furtherance of convenience or to avoid prejudice may order a separate trial . . . of any separate issue . . . or issues."

Rule 52 (a) of Federal Rules of Civil Procedure:

"In all actions tried upon the facts without a jury or with an advisory jury, the Court shall find the facts specially and state separately its conclusions of law thereon . . . Findings of Fact shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial Court to judge of the credibility of the witnesses . . ."

STATEMENT

The Petitioners are Edward R. Williams and Julia Lee Cox Williams, his wife, citizens of the State of Maryland. They instituted this action in the United States District Court for the Western District of Pennsylvania against the Republic Steel Corporation and the Babcock & Wilcox Company, both New Jersey Corporations, having places of business in the Western District of Pennsylvania. Jurisdiction of the Court was based upon diversity of citizenship of the parties with the amount in controversy exceeding the jurisdictional amount. The Petitioners sought equitable relief from the concerted action of the two Defendants in the termination and breach of a three-party patent licensing Agreement. The case was tried without a jury before His Honor, Judge Willson in the Western District of Pennsylvania who directed that judgment be entered in favor of Defendants. The Court of Appeals for the Third Circuit, Judges Maris, Goodrich and Kalodner, affirmed the District Judge's decision on January 7, 1959 and denied the Plaintiffs' Petition for Re-Hearing on February 5, 1959.

The Agreement in question was executed in 1946 and was for a term of 20 years. It covered the joint undertaking of the parties to exploit by licenses throughout the steel industry generally a process for the "continuous casting" of steel.

Plaintiff Williams, one of the Petitioners, turned over to Babcock & Wilcox all of his patents and experimental records on continuous casting. Babcock & Wilcox agreed to operate a pilot plant at Beaver Falls, Pennsylvania as a "demonstration unit on a commercial or

semi-commercial scale of the practicability of continuous casting". (The plant had already been constructed before the agreement was signed.) Babcock & Wilcox further agreed "*to use its best efforts to exploit and license a continuous casting process covered by the patent rights of the parties.*" Republic Steel agreed to share equally with Babcock & Wilcox the development and promotional expenses of the project. The use royalties obtained from sublicenses were to be divided among the three parties.

The Agreement provided that Williams could terminate the Agreement and reclaim his patents if he did not receive minimum royalties of $10,000.00 in the year 1949 and $15,000.00 for the years 1950 and 1951. It was also provided that if the gross use royalties did not exceed $75,000.00 in the year 1952 or any year thereafter, then any of the parties could terminate the Agreement. (R. 18a-43a)

No licenses were granted by the Defendants and Williams did not receive any payments in 1949, 1950 and 1951 but he did not exercise his right to terminate the Agreement.

In June of 1956, the defendants sent simultaneous notices of termination to Williams for the stated reason that the gross use royalties did not exceed $75,000.00 in the year 1955.

The Plaintiffs thereupon brought this action to enjoin the Defendants from terminating the Agreement or in the alternative, the Plaintiffs claimed damages in the amount of $11,650,000.00 for the Defendants' breach of the Agreement.

The Plaintiffs asserted the following bases for relief:

First, the Complaint averred that the Beaver Falls plant had been operated successfully since 1952 and that the Defendants had wrongfully refrained from granting licenses and therefore, could not terminate the Agreement for lack of royalties.

Second, the Complaint averred that the Plaintiff, Williams, had refrained from exercising his right to terminate the Agreement and recapture his patents because he relied upon Defendants' representations and assurances of imminent licensing and therefore the Defendants were estopped from terminating the Agreement.

Third, the Complaint averred that Defendants breached the Agreement by directing the experimental work to meeting their own needs.

Fourth, the Complaint averred that the Defendants engaged in a conspiracy to obtain the fruits of the venture for themselves and were then ready to engage in a widespread licensing program without any participation by the Plaintiffs contrary to the fiduciary relationship created by the Agreement. (R. 9a)

Upon Defendants' Motion the District Judge referred the pre-trial discovery questions to a Special Master. The Special Master ruled that the Plaintiffs were not entitled to discovery of communications between an official of Babcock & Wilcox and an official of Republic where copies of such communications had been sent to the Babcock & Wilcox house counsel; that Plaintiffs were not entitled to discovery of communications between the house counsel for Republic and the house counsel for

Babcock & Wilcox; and, that the cut-off date for all of Plaintiffs' discovery was the date the Complaint was filed, notwithstanding the fact that the Plantiffs' claim was in equity, charging the Defendants with a continuing wrong. (R. 53a-57a)

The Plantiffs filed exceptions to the Special Master's rulings. (R. 57a-58a)

At the pre-trial the District Judge decided that the case should be tried in stages, and the first issue to be decided was: "Whether this thing was worth anything and if so how much it was worth." (R. 83a) The stated purpose of this limitation upon the trial was to determine the applicability of the *de minimis rule*. The District Judge designated this issue as whether the continuous casting process was "commercially successful" or was on the verge of being "commercially successful". (R. 59a-91a)

[After Plaintiffs had closed their case the District Judge defined the issue of commercial success to be "the operation of a plant at a profit," which was entirely different from the issue which the Plaintiffs had tried. (R. 291a) Neither Court defined "commercial success" in its Opinion and neither Court decided the issue of the applicability of the de minimis rule.]

Counsel for Plaintiffs argued against the trial of the case in stages, pointing out that Plaintiffs' other bases for relief did not depend in law upon the value of the continuous casting development. (R. 71a, 72a, 75a and 83a) [Counsel for Plaintiffs also pointed out at pre-trial, at the trial and on the appeal that the Plaintiffs *should not* have the burden of proving "commercial success", regardless of its meaning; the Defendants had

terminated the Agreement under a condition over which they alone had control and therefore, the burden of proof should be on the Defendants to show lack of commercial success]. (R. 69a, 72a, 73a)

Since the District Judge had directed the trial on the one issue, he refused to rule upon Plaintiffs' request for discovery stating the Plaintiffs were not prejudiced by the Special Master's ruling in the trial of the one issue of "commercial success". (R. 84a)

At the commencement of the trial Counsel for Plaintiffs stated the issue to which Plaintiffs' case would be directed:

> "As we understand the issue to be tried right now, the Court would like to know whether the res of the contract, that is the continuous casting process, is of commercial value, that is, of substantial value, or otherwise other matters we have alleged in our Complaint might come under the de minimis rule. And we consider, therefore, the issue 'Have the Defendants developed the process to the point where it could be licensed or on the verge of licensing.'" (R. 23b)

Throughout the trial, the Plaintiffs' case was confined to this one issue.

At the conclusion of Plaintiffs' case, Counsel for Plaintiffs stated: "Your Honor, that concludes the Plaintiffs' evidence on this phase of the case". (R. 288a)

During the Defendants' case and over objections by Counsel for Plaintiffs, the District Judge permitted Defendants to introduce evidence which had been denied to the Plaintiffs in pre-trial discovery and which went

beyond the narrow issue being tried. (R. 298a, 345a; 301a, 302a, 303a, 537a-540a; at R. 539a Defendants introduced a trunk full of documents totaling 583 exhibits; these Exhibits constituted 80 pages of Defendants' Appendix in the Court of Appeals).

The District Judge's Opinion directed that Judgment be entered in favor of the Defendants, thus disposing of all issues of fact and law raised by Plaintiffs' Complaint. (R. 483a)

The Court of Appeals affirmed the decision of the District Judge by reason of Rule 52 (a) of the Federal Rules of Civil Procedure stating that there was evidence in the record to support the Findings of the District Judge.

REASONS FOR GRANTING THE WRIT

The Plaintiffs have been deprived of their property without having had "their day in Court".

District Court

By reason of Rule 42 of the Federal Rules of Civil Procedure, the District Judge directed the trial to proceed on the one issue of "commercial success" of the process. The Court erred in this application of the Rule because the other issues raised by Plaintiffs' Complaint are not dependent upon the "success" of the process. Neither the District Court nor the Court of Appeals held as a matter of law, expressly or by implication, that the other bases for relief set forth by Plaintiffs' Complaint were dependent upon the issue of commercial success. The Opinions show that these issues were decided on evidence, notwithstanding the fact that the Plaintiffs were never permitted to try these issues.

The District Judge, in disposing of the issue of estoppel, referred to isolated representations made by the Defendants to the Plaintiff, Williams, which were introduced out of context by the Plaintiffs on the issue of the "success" of the process.

The District Judge made no finding as to Defendants' breach of the Agreement in devoting the last 3½ years of the contract exclusively to developing the process to suit Republic's needs; a fact which Defendants admitted and attempted to justify in the Court of Appeals.

It was impossible for the Plaintiffs to try the issue of Defendants' conspiracy to obtain the fruits of the venture for themselves because the Special Master had

denied the Plaintiffs discovery of the very evidence which would prove this charge.

The Special Master's Ruling is a limitation upon the scope of the Discovery Rules which has never been sanctioned by this Court. *Hickman v. Taylor,* 329 U.S. 495, (1947) The Master's Ruling, in effect, permits corporate Defendants to engage in unlawful activities, so long as those activities are conducted by their house counsel. It is basic law that the attorney-client privilege does not exist where the communication is delivered to a third-person. The Babcock & Wilcox lawyers were never the attorneys for Republic and the Defendants never became co-defendants until the Plaintiffs instituted suit after the contract had been terminated. In addition, the Plaintiffs charged the Defendants with a continuing tort and inadvertently discovered documentary evidence that Defendants had conducted licensing negotiations since the termination of Plaintiffs' interests under the Agreement. The Plaintiffs should have been entitled to discover and to show to the Court the exact status of these licensing activities at the time of the trial.

The District Judge refused to pass upon Plaintiffs' exceptions to the Special Master's Ruling because the District Judge had ordered that the issue of conspiracy would not be tried in the first stage of the trial; however, the District Court did find as a *fact* that there was no conspiracy on the part of the Defendants.

The District Court thus decided material issues of fact without giving the Plaintiffs the opportunity to present their evidence.

Court of Appeals

The Court of Appeals has sanctioned the District Court's departure from the settled principles of American justice by simply affirming the District Judge's Findings on the basis of Rule 52 (a) of the Federal Rules of Civil Procedure.

The Court of Appeals has also applied Rule 52 (a) contrary to the law as laid down by this Court. *U. S. v. United States Gypsum Co.*, 333 U.S. 364, at 394, 395 and 396 (1948).

The consideration to be given to a District Judge's Findings, or the application of Rule 52 (a), by our Appellate Courts is of vital importance in this present day of crowded court calendars. A pro forma acceptance of a District Judge's Findings may tend to alleviate a crowded docket, but a denial of due process cannot be exacted of litigants as the price of a current docket. It is respectfully submitted that in the application of Rule 52 (a) there has been a subtle erosion in the law to the extent that a District Judge's Findings now have the sanctity of a jury's verdict in our Appellate Courts. This is not the law as pronounced by this Court.

If the circumstances in our Federal Courts today demand that a District Judge's Findings be weighed as a jury's verdict in our Appellate Courts then this Honorable Court should declare this as the law to be applied throughout the Circuits.

A jury's verdict could not be sustained under the circumstances in the instant case. On the issue of the "success" of the process, *which was the only issue tried*, the Trial Judge's Findings were affirmed for the stated

reason that there was evidence in the record which supported the Findings. It is perfectly true that the verbal testimony of the Defendants supported the District Judge's Findings, but the Plaintiffs' case was based entirely upon documents prepared by the Defendants *ante litem motam* which were irreconcilable with the verbal testimony. These documents were unimpeached and unexplained by the Defendants. Under these circumstances the "clearly erroneous rule" has no application. The reviewing Court can and should make its own interpretation of the written evidence.

On Plaintiffs' claim that they were denied the right to introduce evidence on the issue of estoppel, the Court of Appeals made no comment upon the District Judge's Ruling at pre-trial that the Plaintiffs' case be confined to one issue; instead the Court referred to one document written by Plaintiff Williams in 1950 which stated why the Plaintiff did not terminate the Agreement in 1949 when he did not receive royalties of $10,000.00. It is respectfully submitted that this document on its face shows that it does not bar Plaintiffs' claim of estoppel for all of the succeeding years of the contract when Plaintiff could have terminated the Agreement and reclaimed his patents. In addition, it seems incredible that the Court of Appeals would deny Plaintiffs' claim of estoppel on the basis of one document when the Plaintiffs were not permitted to introduce their evidence.

On the Plaintiffs' claim that the Defendants devoted the last 3½ years of the contract to meeting the needs of Republic, the Court of Appeals made a Finding of its own that the continuous casting plant had not been devoted exclusively to meeting Republic's needs. This Find-

ing is clearly contrary to the Defendants' own admissions.

On the issue of conspiracy, the Court of Appeals found that there was evidence to support the District Judge's Findings. The Court made no Finding regarding Plaintiffs' denial of pre-trial discovery and the fact that the Plaintiffs' case was tried by the Trial Judge on one issue and the evidence relied upon by the District Judge in deciding the other issues had been introduced by the Defendants over the Plaintiffs' objections.

The Court of Appeals has applied Rule 52 (a) erroneously thus sanctioning the District Judge's denial of Plaintiffs' right to a trial upon the issues raised by the Complaint.

Completely apart from the lower Federal Courts' erroneous application of the Rules resulting in the deprivation of Petitioners' property without due process of law, this case is of extreme national importance upon its merits. By the Agreement the Defendants had the obligation to license the continuous casting process throughout the steel industry generally. It was recognized by all of the parties that continuous casting would revolutionize steel making. Continuous casting is a process by which molten metal is poured into the top of a tube-like mold and solidified sufficiently so that it can be withdrawn continuously at the bottom as a bar or bloom or slab of the size to be rolled in the secondary rolling mills. It thus eliminates the ingots, the soaking pits and the blooming mills used in conventional steel production. Because of this enormous reduction in capital investment, the process makes decentralization of the steel industry possible. The process also permits the

small non-integrated producers to make their own semi-finished steel which must now be purchased from the large integrated companies with whom the small companies are now required to compete in the finished steel market. (R. 366a-376a; 395a-410a)

It has been the Plaintiffs' position throughout these proceedings that the continuous casting process was ready for use by the small non-integrated companies and that the Defendants withheld the process from the industry because continuous casting had not as yet been developed to fit the needs of Republic, the third largest integrated company in the United States. It is respectfully submitted that on an issue so vitally important to our society the Petitioners' rights to due process of law must be zealously guarded.

WHEREFORE, Petitioners request this Honorable Court to exercise its supervisory powers over the inferior Federal Courts to correct these violations of Plaintiffs' Constitutional rights.

Respectfully submitted,

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APPENDIX

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No. 12,637

EDWARD R. WILLIAMS AND JULIA LEE COX WILLIAMS FOR THEMSELVES AND DOING BUSINESS AS WILLIAMS ENGINEERING COMPANY, A PARTNERSHIP, *Appellants,*

v.

THE BABCOCK & WILCOX COMPANY AND REPUBLIC STEEL CORPORATION

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF PENNSYLVANIA

Argued November 6, 1958
Before MARIS, GOODRICH AND KALODNER, *Circuit Judges*.

Opinion of the Court

(Filed January 7, 1959)

By MARIS, *Circuit Judge*.

The question on this appeal is whether the District Court for the Western District of Pennsylvania erred in finding that the defendants, Babcock & Wilcox Company and Republic Steel Corporation, had not wrongfully breached their agreement with the plaintiffs, Edward R. Williams and Julia Lee Cox Williams doing business as

Williams Engineering Company,[1] and that the plaintiffs were not entitled to the equitable relief they sought. The undisputed facts are these:

. . . The plaintiff Edward R. Williams, an inventor, had done considerable research and experimental work in continuous casting of molten metals, as a result of which prior to July 15, 1941 he owned both United States and foreign patents in this art. Continuous casting has been successfully used in processing non-ferrous metals such as copper, brass and aluminum. The successful application of continuous casting to steel has been of immense interest to the steel industry for many years as it would reduce operating costs, eliminate the need for expensive equipment, and would avoid the high losses of metal which are involved in the several production steps required in conventional processing. The defendant Republic Steel Corporation, a large producer of steel, entered into an agreement with Williams in 1941 pursuant to which it conducted experimental work in this field under a license from Williams. In 1943 Republic entered into a supplemental agreement with Williams which provided that defendant Babcock & Wilcox Company, a producer and user of ferrous metals, would collaborate in conducting experiments in this field. A small experimental casting unit was installed by Babcock & Wilcox at its plant at Barberton, Ohio. Thereafter, Republic gave Williams

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[1] The agreement here involved was entered into by the plaintiff partnership consisting of plaintiff Edward R. Williams and his wife as owners of the patents issued to plaintiff Edward R. Williams for the process and apparatus for continuous casting. The plaintiff Edward R. Williams is the party actively concerned in the dealings with the defendants.

notice of termination of the 1941 and supplemental agreements.

On June 1, 1946 the parties entered into the agreement here involved in which it was stated that Babcock & Wilcox desired to establish the continuous casting of metals on a production basis. The parties conveyed all their rights under patents involving continuous casting for their mutual use and for the development of the process. Babcock & Wilcox agreed to install in its plant at Beaver Falls, Pennsylvania, an apparatus which would serve as a demonstration unit on a commercial or semi-commercial scale of the practicability of continuous casting. Access for inspection of the installation and of operating records was to be available to the parties. Babcock & Wilcox further agreed "to use its best efforts to exploit and license a continuous casting process covered by the patent rights of the parties." Royalty-free licenses were granted by the agreement to each of the parties for their own production for the full term of the licensed patent rights unaffected by any termination of the agreement.

It was further agreed that the use royalties obtained from sublicensees would be divided between the parties. Williams was in any event to receive annual payments of $7500 retroactively from June 1, 1946 to November 12, 1944, and $10,000 per year until December 31, 1948. In addition, Williams was to receive 33 1/3% of the gross use royalties, the total payment not to exceed $25,000 until the gross use royalties exceeded $227,000, when he would receive 11% of the gross use royalties annually. The expense of the project was to be borne by Babcock & Wilcox and Republic. Williams was to act as

a consultant on a part time basis upon request in writing by Babcock & Wilcox. The agreement was terminable under several paragraphs but only paragraph 16 is here pertinent. Paragraph 16(a) gave Williams the right to cancel during the years 1949, 1950 and 1951 under the following circumstances:

> "(a) In the event WILLIAMS shall receive as his share of the gross use royalties collected by B. & W. for the calendar year 1949 an amount not exceeding $10,000., or an amount not exceeding $15,000. from the gross use royalties collected by B. & W. for each of the calendar years 1950 and 1951, WILLIAMS may, by a notice in writing served on REPUBLIC and B. & W. within sixty (60) days after the end of the corresponding calendar year, terminate this agreement, and such termination shall become effective thirty (30) days after receipt of such notice unless REPUBLIC and/or B. & W. shall within said thirty (30) days pay to WILLIAMS a sum equal to the difference between the royalties paid to WILLIAMS and the minimum amount named herein for the corresponding calendar year."

No licenses were granted during 1949, 1950 and 1951 and Williams did not receive any payments but nonetheless did not exercise his right to terminate the agreement. His principal patent and some of his foreign patents had expired by 1954. Under paragraph 16(b) any of the parties, after the year 1952, had the following termination rights:

> "(b) In the event the gross use royalties collected by B. & W. from sublicensees for the calendar year 1952, or for any calendar year thereafter does

not exceed $75,000., then any of the parties may, by a notice in writing served on the other parties within sixty (60) days thereafter, terminate this agreement, and such termination shall become effective thirty (30) days after receipt of such notice."

No licenses were granted during the years from 1952 to 1955. In March 1955 the defendants decided that negotiations should be initiated for a surrender of Williams' rights under the agreement. The plaintiffs were approached with the proposition that they accept $3000 annually over a period of 10 years for their interest in the agreement, which was rejected. The defendants then proposed a new agreement but its terms were not acceptable to Williams. On July 5, 1956[2] defendants gave notice of termination of the 1946 agreement for lack of royalties during 1955.

The plaintiffs thereupon brought this action for an injunction against the termination of the agreement and to prevent the defendants from enjoying any benefits from the continuous casting process except pursuant to the agreement. In the alternative, the plaintiffs claimed damages in the amount of $806,000 resulting from defendants' alleged waste or conversion of the plaintiffs' property in the patents. Jurisdiction was based upon diversity of citizenship. The case was tried to the court without a jury. It was undisputed that the defendants had the legal right to terminate the agreement under paragraph 16(b) but the plaintiffs sought to invoke the equitable powers of the district court upon the grounds

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[2] It appears that by supplemental agreement the parties extended the time for serving notice of termination in 1956.

that the plant erected by Babcock & Wilcox at Beaver Falls had in fact been operated successfully on a commercial production basis since 1952 but that Babcock & Wilcox had wrongfully refrained from granting licenses, that the plaintiffs refrained from exercising their right to terminate the agreement and recapture their patents in reliance upon the defendants' assurances of imminent licensing, that the defendants' experiments were directed toward their own needs rather than commercial exploitation, and that the lack of gross royalties was due to the defendants' own delay, lack of diligence and ineffective experimental program. The district court decided first to try the plaintiffs' claim that the Babcock & Wilcox plant had been operated successfully since 1952 and that the defendants could have, and should have, secured licenses for the commercial exploitation of the process and collected at least $75,000 in gross use royalties during that year. The plaintiffs' case was based in large part upon documents, including records of casting heats, and statements by defendants' executive officers and other representatives to Williams or which appeared in letters, advertisements and publications. The matter was highly technical and the record voluminous. The district court in its opinion analyzed the evidence at length and found as a fact that the defendants had acted in good faith in attempting to develop the process, that their large expenditures for the operation of the experimental plant negated the charge of waste of the patents, and that the process had not in fact reached the point of commercial utility or success where Babcock & Wilcox should in good faith have offered the process to the public for licensing. Judgment was entered for the defendants and this appeal by the plaintiffs followed.

The plaintiffs urge in this court that the defendants were estopped from terminating the agreement, that the process was ready for licensing but that the defendants had not tried in good faith to grant licenses and that the defendants conspired to obtain the fruits of the enterprise for their own benefit. The basic issue here is whether the contrary findings of fact with respect to these matters which were made by the district court were clearly erroneous. For a finding of fact will not be disturbed on appeal unless it is clearly wrong, due regard being had for the opportunity of the trial judge to observe the demeanor of the witnesses while testifying, to appraise their credibility and to determine the weight to be given their testimony. Rule 52(a), Federal Rules of Civil Procedure. A court of appeals does not retry a case or substitute its own judgment for that of the district court on factual issues. Hudspeth v. Esso Standard Oil Co., 8 Cir. 1948, 170 F. 2d 418, 420. Nonetheless, a finding may be set aside on appeal if, although supported by some evidence, the reviewing court upon considering all the evidence is left with the definite and firm conviction that a mistake has been made by the fact finder. United States v. Gypsum Co., 1948, 333 U.S. 364, 395.

The plaintiffs assert that the court clearly erred in finding no factual basis for concluding that the defendants were estopped from terminating the agreement because, upon their assurances of imminent licensing, the plaintiffs did not earlier terminate the agreement themselves and recapture their patents. The plaintiffs rely in this connection upon writings which they say are of "such a nature as to induce a reasonable person to believe that licensing was imminent and for such reason forebear cancellation." We have carefully examined these

documents. Most of them are letters from Isaac Harter, Sr., and his son, Isaac Harter, Jr., of Babcock & Wilcox, who were engineers in charge of the project. They speak with confidence that the casting operation was proceeding in fine form and that licensing would begin "before the end of the year" and "in six months". There also is a letter written by patent counsel J. P. Moran in respect to an extension of the Williams British Patent No. 489,568, a copy of which was sent to Williams, which in pertinent part stated:

> "The continuous casting development work of the Babcock & Wilcox Company at Beaver Falls, Pennsylvania, has now reached the stage at which that company is willing to license other steel producers under the process and to guarantee the results obtainable with the continuous casting of carbon steel billets. This work has been discussed with several prospective licensees, and it is expected that one or more licenses will be consummated in the near future."

The district court found that Williams relied on the expressions of hope of the defendants' representatives, particularly the Harters, that success would be achieved but that the evidence would not support a finding that a promise had been made by the defendants which should reasonably be expected to induce the plaintiffs to refrain from terminating the contract. Restatement, Contracts, § 90; Fried v. Fisher, 1938, 328 Pa. 497, 196 A. 39. We agree with the district court in this regard.

The plaintiffs complain that the district court excluded evidence as to the reasons why Williams did not cancel the contract. The record does not bear out this

complaint. For these reasons are fully given by Williams himself in a memorandum written by him under date of August 14, 1950 which was received in evidence, as follows:

> "Mr. Harter feels that Republic will start on new commercial unit by winter and are pushing B. & W. to let them go ahead. The proof on 4 X 27 slab will be the starting point but Republic will probably cast 4 X 40 in first unit. Harter says that others will be licensed as soon as Republic starts so that licenses and royalties should begin in 1951. I didn't bring up fact that I had received no income from them in 1949 or so far in 1950 and that I could cancel agreement unless they paid but that I had decided this was not the spirit of the agreement and decided to wait and take my chances and not ask them for any income until royalties started. They did not mention this either but Ike seemed a little worried that I might bring it up as he was more than anxious to pay my traveling expenses when I raised this question."

Perhaps the most that can be said for plaintiffs' argument on this point is that the defendants did not share with the plaintiffs the spirit of the agreement. On this record we cannot hold that the district court was wrong in finding that the defendants were not estopped by any representations or promises made to the plaintiffs from terminating the agreement under paragraph 16.

The plaintiffs' next contention is that the court erred in finding that the defendants acted honestly and in good faith in the attempt successfully to develop the patented process and exploit it by licensing and did not improperly

direct their efforts instead to adapt the process for Republic's special needs. The district court reviewed the reports of the many successive casting heats made in the Beaver Falls experimental plant and found that, while some did indicate the production of good steel, the cost and waste of the operations kept the process from reaching the point of commercial feasibility where Babcock & Wilcox should in good faith have offered it to the public for licensing. The plaintiffs urge that the process was ready for licensing to small non-integrated companies for the production of carbon steel billets and a limited number of alloy steels in cross sections up to 50 square inches by the year 1952 and that Babcock & Wilcox accordingly had opportunities to license but improperly refrained from doing so. We have examined the record and find that although there were inquiries and interest was expressed in the process there is no support for plaintiffs' contention that the defendants had on several different occasions the opportunity to grant licenses of which tney did not avail themselves. On the contrary, so far as the record shows, none of these requests materialized to the stage of license negotiations and there is ample support in the record for the district court's finding that the process was then still in the experimental stage.

The plaintiffs rely on Neenan v. Otis Elevator Co., 2 Cir. 1912, 194 F. 414, in support of their position that the defendants breached their agreement to exploit the patents by licensing. The Neenan case, however, is distinguishable from this case in that there the district court found as a fact that the test made by defendant of the patented apparatus was satisfactory, and that the failure of the defendant to make use of the invention

was a violation of the contract. The Court of Appeals stated [194 F. 414, 420]:

> "... It was the duty of the defendant to test the apparatus with reasonable diligence and if the tests were satisfactory to install it within such reasonable time as was convenient. It did test the apparatus and found it satisfactory, but has wholly neglected to put it into practical use. Its conduct in this regard seem to indicate a purpoe not to use the patented improvements but to prevent rivals in business from acquiring them."

The plaintiffs also contend that the court erred in not finding that the defendants had conspired to obtain the process for their own benefit. Under the agreement Republic was entitled to use the process in its own plant. The plaintiffs say that 3½ years were spent by the defendants in trying to adapt the process to Republic's use. But the district court found that experiments were being conducted in smaller size molds than those used by Republic during this entire period. This finding has support in the evidence. Thus it does not appear that the work at the Beaver Falls plant was conducted solely to protect the process for Republic. On the contrary, the evidence shows that Williams was apprised of the fact that experimentation was being carried on also for Republic and he made no objection. The district court found that in August, 1950, the Harters explained to Williams that if a 4 X 27 inches slab could be "proved out" they felt that Republic would start a new commercial unit and that others would be licensed as soon as Republic started. We agree with the district court that the evidence does not support the plaintiffs' charge of improper conduct by the defendants in this regard.

Finally the plaintiffs contend that the district court erred in deciding that they first had the burden of proving commercial success. This contention is wholly without merit. This issue was basic to the plaintiffs' case. Indeed, one of the averments in the complaint was that the plant at Beaver Falls has been operated successfully and on a commercial production basis since 1952. It is clear that the plaintiffs had the burden of showing this to be the fact in order to pave the way for their requested finding that Babcock & Wilcox had failed to license the process although it was ready for commercial exploitation by the public.

The other contentions of the plaintiffs need not be discussed. It is sufficient to say that we have examined them and find them wholly without merit.

The judgment of the district court will be affirmed.

A true Copy:

Teste:

Clerk of the United States Court of Appeals for the Third Circuit.

APR 1 1959
JAMES R. BROWNING, Clerk

IN THE

Supreme Court of the United States

OCTOBER TERM, 1958

No. 762

EDWARD R. WILLIAMS and JULIA LEE COX WILLIAMS for Themselves and Doing Business as WILLIAMS ENGINEERING COMPANY, a Partnership,

Petitioners,

vs.

THE BABCOCK & WILCOX COMPANY and REPUBLIC STEEL CORPORATION,

Respondents.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT.

BRIEF FOR RESPONDENTS IN OPPOSITION

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April 1, 1959.

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BRIEF FOR RESPONDENTS IN OPPOSITION

Opinions Below.

The opinion of the Court of Appeals for the Third Circuit is reported at 262 F. 2d 253. The opinion of the District Court (483a-534a*) is unreported except in 120 U. S. P. Q. 160.

* Page references to appellants' (petitioners here) appendix in the Court of Appeals are followed by the letter "a"; page references to appellees' (respondents here) appendix in the Court of Appeals are followed by the letter "b".

Jurisdiction.

The basis of this Court's jurisdiction is adequately set forth in the Petition. The jurisdiction of the District Court depended on diversity of citizenship (9a).

Questions Presented.

1. Whether the findings of fact made by the District Court were "clearly erroneous" (Fed. R. Civ. P. 52a).

2. Whether the pre-trial discovery and other rulings of the District Court were "inconsistent with substantial justice" (Fed. R. Civ. P. 61) and "so far departed from the accepted and usual course of judicial proceedings . . . as to call for an exercise of this Court's power of supervision" (Rule 19 of this Court).

Statement of the Case.

The contract in suit (18a-43a) contemplated the development of a process for the continuous casting of steel which could be licensed to the steel industry and which would produce royalties to be shared by the parties to the contract. Petitioners' contribution to the endeavor consisted of certain patents; respondents were to do the development work at their own expense and respondent The Babcock & Wilcox Company ("B&W") was "to use its best efforts to exploit and license a continuous casting process" (26a).

The contract was executed in 1946 and provided in paragraph 16(b) as follows (39a):

> "(b) In the event the gross use royalties collected by B. & W. from sublicensees for the calendar year 1952, or for any calendar year thereafter does not exceed $75,000, then any of the parties may, by a notice in writing served on the other parties within

sixty (60) days thereafter, terminate this agreement, and such termination shall become effective thirty (30) days after receipt of such notice."

Despite ten years of work and the expenditure by respondents of over $2,500,000 (including the payment of $70,000 to petitioners), the process was never developed to "the point of commercial utility or success where Babcock & Wilcox should in good faith have offered the process to the public for licensing" (262 F. 2d at 256; Appendix to Petition, p. 22); B&W therefore was never able to obtain any licenses or to collect any royalties.

In 1956, respondents gave notice to petitioners that the contract would be terminated in accordance with the terms of the above quoted paragraph 16(b) of the contract.

Petitioners sued in the District Court to enjoin termination of the contract or for damages, claiming that the process had in fact been developed to the point of commercial success by 1952, that respondents could and should have granted licenses and that such licenses could and should have yielded royalties in excess of $75,000 per year. Petitioners claimed also a "promissory estoppel" based on alleged promises by respondents that licenses would be issued; the claim seems to be that but for such promises, petitioners themselves would have terminated the contract and "recaptured" their patents (Petition, p. 6).

At pretrial conferences, it was recognized (e.g. 9b) that in terminating the contract in suit respondents had acted precisely in accordance with its provisions. Not having collected $75,000 in royalties for a calendar year, any party had a right to terminate the contract (39a). The District Court believed, therefore, that the case turned on whether the process had reached such a point that respondents could have and should have licensed it and could have and should have secured $75,000 in royalties in the relevant calendar year (67a-68a, 70a, 81a, 493a). The term "commercial success" was used as shorthand for the issue thus phrased

and the District Court directed trial of this essential issue. Counsel for petitioners consented to and agreed with this procedure (66a, 67a-68a, 70a, 73a, 80a, 83a-84a, 5b, 7b, 10b, 13b).

The District Court for the Western District of Pennsylvania (Judge JOSEPH P. WILLSON) dismissed the complaint on the merits after a seven-day trial (6a) in which there was oral testimony by six witnesses. The District Court opinion is a careful and detailed analysis of the oral testimony and documentary evidence. The District Court found that there was no breach of the contract (529a), that there was "the utmost good faith on the part of defendants' officers and personnel engaged in the work" (521a-522a), that defendants "acted honestly and in good faith in an attempt to successfully develop the process" (530a) but that "the point was never reached where B&W should have offered the process for licensing" (532a).

The judgment of the District Court was affirmed unanimously by the Court of Appeals (Circuit Judges MARIS, GOODRICH and KALODNER), with an opinion which again demonstrates a careful and detailed analysis of the evidence.

ARGUMENT

I.

The decision below is clearly correct.

The crucial finding of the District Court was as follows (532a):

> "I find that the point was never reached where B&W should have offered the process for licensing."

In addition to overwhelming evidence from respondents themselves, this finding was supported by the testimony of a disinterested witness, Hjalmar W. Johnson, vice-president

and director of Inland Steel Corporation, who had investigated for his company *all* processes for continuous casting, including that on which respondents were working (104b-150b).

The Court of Appeals agreed with the District Court (262 F. 2d at 257 and at 258), found "ample support in the record for the findings of the District Court" (262 F. 2d at 258), and found other contentions of petitioners to be "wholly without merit" (262 F. 2d at 259).

Now petitioners ask this Court to reexamine the concurrent findings of fact by the Court of Appeals and the District Court.

> "A court of law, such as this Court is, rather than a court for correction of errors in fact finding, cannot undertake to review concurrent findings of fact by two courts below in the absence of a very obvious and exceptional showing of error."
>
> *Graver Tank & Mfg. Co.* v. *Linde Air Products Co.*, 336 U. S. 271, 275 (1949).

No "very obvious and exceptional showing of error" can be made here, for there is abundant evidence that despite the good faith efforts of respondents, the process was not ripe for licensing because it had not been developed to a practical point where it could be used with commercial success (*e.g.*, 58b-60b, 123b-138b, 399b-404b, 210b-212b, 219b-220b, 232b-233b, 236b-237b, 251b-252b, 261b-266b).

Petitioners suggest (Petition, p. 13) that Rule 52(a) of the Federal Rules of Civil Procedure is not applicable to this action. We cannot take such a suggestion seriously since the Rule itself expressly states that it is applicable to "*all* actions tried upon the facts without a jury" (italics ours). It is absurd to represent that the case at bar is to be excepted from Rule 52(a).

Moreover, the result would have been the same in the Court of Appeals regardless of Rule 52(a). This is because,

after its review of the evidence, the Court of Appeals expressed its agreement with the District Court (262 F. 2d at 257 and at 258).

II.

The decision below is not in conflict with any decision of this Court.

Petitioners attempt to justify their application for a writ by a statement that "[t]he Court of Appeals has also applied Rule 52(a) contrary to the law as laid down by this Court" (Petition, p. 12). *U. S.* v. *United States Gypsum Co.*, 333 U. S. 364 (1948) is cited in support, specifically at pages 394, 395, and 396.

The *Gypsum* case, as it concerns appellate review of findings of fact, teaches that

> "A finding is 'clearly erroneous' when although there is evidence to support it, the reviewing court on the entire evidence is left with the definite and firm conviction that a mistake has been committed" (333 U. S. at 395).

In the case at bar, the Court of Appeals not only applied this principle but did so knowingly and cited the *Gypsum* case for the principle set forth in the language quoted (262 F. 2d at 256, 257; Appendix to Petition, p. 23). The Court of Appeals measured the documents against the testimony of witnesses and found no conflict. The Court of Appeals stated: "We have carefully examined these documents . . . we agree with the District Court in this regard" (262 F. 2d at 257; Appendix to Petition, pp. 23-24).

III.

The decision below did not depart "from the accepted and usual course of judicial proceedings" (Rule 19 of this Court).

Petitioners argue that procedural errors were committed in the District Court and call upon this Court "to exercise its supervisory powers . . . to correct these violations of Plaintiff's constitutional rights" (Petition, p. 15).

The argument is without the slightest merit.

A.

Petitioners complain of a pretrial ruling which is alleged to have confined the trial to the single issue of "commercial success". Petitioners fail to point out that they agreed in open court that the evidence should at the outset be directed to the basic question whether the respondents acted justifiably and in good faith in terminating the contract (79a-80a; see 67a-68a, 83a-84a, 5b, 7b, 10b).

Ignoring their own acquiescence in the pretrial ruling, petitioners attempt to build upon it the argument that the District Court erroneously disposed after trial of all of the issues in the case after precluding proof of petitioners' promissory estoppel theory. The argument presents no question to invoke this Court's power of supervision of the federal courts.

First, the basic issue of commercial success cannot be considered in isolation from the contention that respondents, by promising to petitioners that they would license the process, induced petitioners to forego serving their own notice of termination prior to 1956. Licenses could be issued and royalties earned only if the process was commercially successful. The finding of both courts below that the process was not commercially successful refutes petitioners' contention of promises by respondents that licenses would be issued.

Second, there was no preclusion of petitioners' proof. Mr. Williams did, in fact, testify to the assurances he allegedly received (151a) and the District Court received in evidence his memoranda of conversations in which the alleged promises were made (131a-138a), together with correspondence with respondents in this connection (138a-148a) and respondents' pleading admissions with respect to the promissory estoppel theory (93a-94a).

Third, petitioners could not in any event "recapture" their patents by terminating the agreement prior to 1956; the contract in suit provides that respondents' licenses would survive termination of the contract (28a).*

In rejecting the promissory estoppel contention, the District Court *assumed* reliance by petitioners (530a), but found as a fact that no promises were made (530a-531a). This finding, too, was carefully considered and affirmed by the experienced panel of the Court of Appeals (Petition, pp. 23-25).

B.

Finally, petitioners seek review of rulings made in the course of pretrial discovery; petitioners contend that documents as to which they were denied discovery were put in evidence by respondents. Wholly apart from the question whether the discovery rulings were right or wrong, the record citations given in the petition in this connection (p. 9) demonstrate that petitioners were not prejudiced. Some of the documents were not prepared by respondents but were reports prepared by employees of Inland Steel, a company which is not a party to the litigation (298a). With respect to other documents, it is uncertain that they were withheld from petitioners (302a, 303a); these and other documents as to which any question was raised were given to petitioners at the trial for study overnight (302a,

* Petitioners conceded in their brief in the Court of Appeals (p. 31) that their principal patent expired in 1954.

303a, 537a-540a). In any event, the documents in question were received subject to a motion to strike (541a). Petitioners made no such motion (548a) and should not be heard to complain in this Court that reception of the documents was prejudicial error.

CONCLUSION.

This petition for a writ of certiorari should be denied.

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THE BABCOCK & WILCOX COMPANY and REPUBLIC STEEL CORPORATION

PETITIONERS' REPLY BRIEF

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PETITIONERS' REPLY BRIEF

Respondents' Brief in Opposition does not answer the Petitioners' charge of denial of due process; instead, Respondents have injected into the case a discussion of the merits, presumably for the purpose of convincing this Court that "in any event the results reached by the lower Courts were correct." This argument is not only out of place in this Court but it cannot possibly be considered in the face of this record.

The Petitioners are not requesting this Court to review the finding of the lower Courts on the basis of the evidence in the record; *the Petitioners are requesting this Court to review the decisions of the lower Courts because of Petitioners' evidence which was excluded from the record by the unusual short cut adopted by the trial Judge.*

Respondents have asserted that the case turns upon the "crucial finding" that "the point was never reached where B & W should have offered the process for licensing". The explanation of just how this finding was reached, demonstrates how thoroughly Petitioners' rights have been violated.

The pre-trial record (R. 59a-91a) is clear; the District Judge ruled that the case would be tried in stages and the first issue to be decided was whether "commercial success" had been achieved. At page 67a of the record Counsel for Petitioners requested the Judge to state the meaning of "commercial success". At that time the District Judge stated: "I mean worthwhile . . ." (68a) Later, in settling the pre-trial Order the District Judge stated: "We might as well take this case up in stages. In other words, take that part up first whether or not this thing was worth anything and if so, how much was it worth."

"Let's try that part, get it out of the way."

"*Mr. Gregg*: All right."

"*The Court*: Confine our case in the first instance to that. That is the ruling of the Court at pre-trial." (R. 83a)

The plaintiffs confined their case at the trial to this single issue and Counsel for Respondents by objection made certain of it. (R. 107a, 149a, 159a)

Plaintiffs had no opportunity to try the other issues raised in their Complaint. It was impossible for Plaintiffs to try the issue of conspiracy or lack of good faith of the defendants in performing the contract because plaintiffs had been denied pre-trial discovery of these

matters; the District Judge refused to pass upon plaintiffs' requests for discovery for the stated reason that conspiracy or bad faith was not pertinent to the issue of "commercial success" which was the first issue to be tried. (R. 84a)

After the plaintiffs' case had been closed, the trial Judge changed the meaning of "commercial success" to mean "operating a plant at a profit". (291a) The District Judge then proceeded to rule that under the contract the Respondents were justified in *not attempting* to license the process because "commercial success" had not been achieved; "commercial success" had not been achieved because the Respondents did not have a plant in operation at a profit (plaintiffs would readily have stipulated to this fact; although the pilot plant produced commercial grade steel it was too small for operation at a profit).

This finding by the District Court necessarily placed a construction upon the licensing contract as "contemplating the *development* of a process for licensing "when the clear wording of the contract "contemplated the *existence* of a process for licensing." The trial Court thus found an ambiguity in the contract and resolved it without giving the plaintiffs the opportunity to present relevant evidence to the subject, while the issue stated at pre-trial has never been decided.

These matters have been set forth not for the purpose of engaging in a discussion of the merits of the controversy on a Petition for Certiorari; but these facts have been recited to show the complete denial of a trial on the actual issues.

Although plaintiffs were unable to prove "commercial success" within the specific definition last imposed by the Court, the continuous casting process is extremely valuable to the small non-integrated companies. The defendants themselves stated ante litem motam that the process was ready for 15% of the annual steel production (R. 395a at 409a) but *refused* to license it until they had it developed for the large integrated companies, such as Inland Steel and until Republic, the third largest integrated company had a plant operating in production. Respondents' continued activity with the process is cogent evidence of its worth.

The lower Courts in denying the Petitioners' right to a trial on the other bases for relief set forth in the Complaint have deprived the Petitioners of extremely valuable property without due process of law.

Respondents in attempting to answer Petitioners' claim that the lower Court decided the estoppel issue as a matter of fact without hearing Petitioners' evidence, has asserted that the District Court assumed reliance by the plaintiffs but found no promises by the Defendants. (Brief p. 8) This assertion is difficult to reconcile with the decision of the Court of Appeals, because the Court of Appeals recited the representations by the defendants but found as a fact that there was no reliance by the plaintiffs. The situation becomes anomalous when it is realized that the plaintiffs' evidence on estoppel was not before either Court.

Finally, respondents urge this Court that the "mid-trial" "over-night" inspection of documents cured all of the defects caused by plaintiffs being denied pre-trial dis-

covery. There are several things wrong with this assertion. *First,* the documents withheld from the plaintiffs because of the special master's ruling, which would establish the conspiracy, *never* were tendered to Plaintiffs. Plaintiffs inadvertently discovered documents which disclosed that defendants had conducted negotiations, both prior and subsequent to the termination of the contract, with foreign interests toward the formation of an international corporation for the licensing of continuous casting; there were certain documents which showed that defendants were conducting licensing negotiations at the very time when defendants' verbal testimony was to the effect that their operations were a complete failure; there were documents which showed that the house counsel for B & W had submitted to Republic the procedure which the defendants should follow in terminating the plaintiffs' interests under the contract; and there were minutes of meetings between the officers of both companies which the defendants just arbitrarily withheld from the plaintiffs' pre-trial discovery.

Second, there were 653 of Defendants' Exhibits received in evidence. 37 of these Exhibits were shown to counsel for plaintiffs for the first time when they were offered in evidence. A trunk full of documents consisting of 583 Exhibits were offered in evidence at one time without specifications. Many of these Exhibits were voluminous documents; it would have taken counsel for Petitioners many weeks to read these documents without considering the time necessary to prepare a rebuttal to them. (R. 537a-549a)

It is significant that Respondents' brief does not deny the judicial irregularities on which the Petition

for Certiorari is based, but by innuendo seeks to create the impression that the controversy is for a worthless process.

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